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USSR-IRAN-IRAQ: Soviets See War Continuing

Moscow is pessimistic about the prospects for a negotiated end to the war between Iran and Iraq, despite its recent private statements of interest in mediating the conflict. [redacted]

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TASS reported that on 5 March Foreign Minister Gromyko stressed the USSR's desire for a peaceful settlement in separate meetings in Moscow with the Iraqi and Iranian envoys. [redacted]

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Oleg Grinevskiy, chief of the Foreign Ministry's Near East Department, told the US Chargé in Moscow on the same day that Soviet discussions with Iranian officials on the war have not brought "full satisfaction." He noted that, while Baghdad appeared to want the war to end, Tehran was "more and more rigid." He inquired whether the US was engaged in behind-the-scenes efforts to end the conflict and claimed that the USSR was doing so. [redacted]

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Comment: [redacted] Grinevskiy's remarks to the Chargé, and the unusual scheduling of meetings with the Iraqi and Iranian envoys on the same day appear designed to create the impression that the Soviets are involved in mediation.

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A Soviet-brokered end to the war would be a major political success for the USSR. Moscow probably realizes, however, that even if the Iranians were interested in negotiations, they would not trust it as a mediator. Nonetheless, the USSR seems to be trying to portray itself to Iraq and its Arab supporters as a principal party in the search for a settlement. [redacted]

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EC: Exchange Rate Realignment Imminent

A realignment of the exchange rates of the eight currencies in the European Monetary System may come as early as this weekend.

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Inflation in France has been running 6 percentage points higher than the 4-percent rate in West Germany. Moreover, the French current account deficit of \$13 billion in 1982 was the largest among the industrial countries, and only slight improvement is expected this year. West Germany's current account is in surplus and growing.

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For the past two weeks the Belgian and French francs have been at the bottom of the range allowed against the West German mark under the EMS. According to the financial press, the French, West German, and Belgian central banks spent more than \$1 billion in that period to support the exchange rate. Despite denials that a realignment is imminent, the French Finance Ministry reportedly prepared a study of the economic impact of an 8-percent devaluation of the franc against the mark.

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West German Chancellor Kohl's election victory and the trouncing of the left in the French municipal elections last week have further strengthened the mark and weakened the franc. Moreover, speculation about a realignment has increased pressure on the exchange rates.

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Comment: Brussels, Paris, and Bonn have been resisting a realignment. The Belgians and the French fear the inflationary impact of a devaluation. The West Germans believe that a more expensive mark would harm exports at a time of double-digit unemployment rates.

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At a minimum, the three governments all want to put off a realignment until after cabinet changes in France and West Germany. Pressure on the foreign exchange markets, however, is likely to force their hands.

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When the realignment comes, the French may effectively devalue the franc by as much as 10 percent against the mark. The West Germans may revalue the mark, a move that would be equivalent to devaluing the other currencies. The Belgians—and possibly the Italians, Dutch, and Danes—also may devalue their currencies, but by a smaller amount.

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FRANCE: Resignation of Army Chief of Staff

The resignation late last week of Army Chief of Staff Delaunay is the result of continuing dissatisfaction with the defense priorities of the government. []

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Press reports say Delaunay resigned at the request of Defense Minister Hernu, but US Embassy sources indicate Delaunay may have acted on his own initiative. He opposed planned budget cuts and the government's emphasis on strategic forces at the expense of conventional capabilities. Publication last fall of Delaunay's letter protesting proposed reductions in the Army—along with similar letters from the Navy and Air Force chiefs—embarrassed Hernu.

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The Embassy believes other high-ranking Army officers are likely to resign. Some are unhappy with the government's defense plans and its apparent intention to promote younger officers more sympathetic to government defense priorities. []

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Comment: The resignation will provide the opposition in the National Assembly with ammunition for the impending debate on the military program for 1984-88 now being drafted by the Ministry of Defense. This plan probably will continue to emphasize strategic nuclear forces at the expense of general purpose forces. []

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Conventional forces, particularly the Army, have borne the brunt of recent budget cuts, and the no-growth budget for 1983 provides no relief. Funding for strategic nuclear programs will increase by some 15 percent in 1983. []

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There are indications that the Army may be reduced by some 35,000 men and that its modernization plans may be curtailed. Debate on the program has been delayed until June and could slip further. []

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BRAZIL: Challenges to Economic Program

The new Congress and state governors are likely to complicate efforts by President Figueiredo to carry out his austerity program.

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The newly elected congressmen—particularly in the lower house, where the government party lost its majority—publicly challenged administration economic policies before the legislature convened. In the opening session, opposition leaders intensified their attack, and even members of the government party threatened to obstruct legislation reducing cost-of-living raises.

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The new governors, the first to be popularly elected since 1965, assume office next week. A majority of those from the ruling party already have called for a restructuring of the tax system to benefit the least developed states. Local observers believe opposition governors, who control the wealthiest and most populous states, will come under pressure from business and labor to back their demands to ease austerity.

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Figueiredo has called on the Congress to display a spirit of compromise and consensus. He has promised to continue backing the restoration of democratic rule and to respect the autonomy of the states, implying equal treatment in the distribution of federal assistance.

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Comment: Figueiredo's overture may buy him limited political support because many congressmen probably believe he provides their best guarantee of a full return to democratic politics. The increased assertiveness of the Congress and the state governments, however, is likely to continue. Critics will focus on politically contentious economic issues, on which the administration is most vulnerable.

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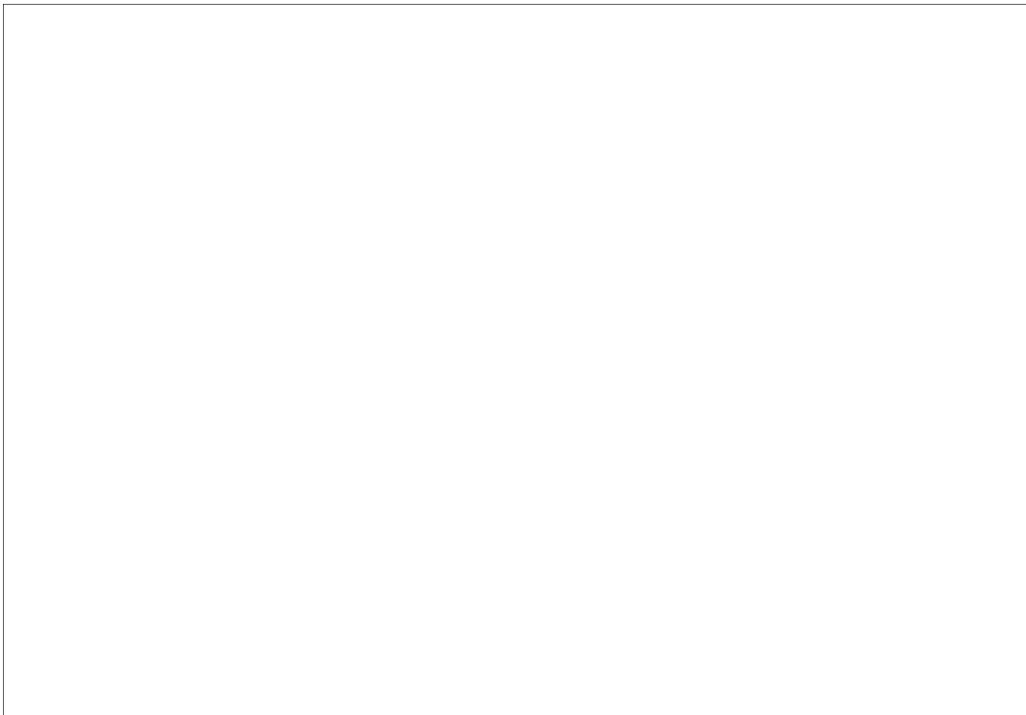
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**CUBA-SURINAME: Moving Toward Closer Relations**

Cuba appears to be strengthening its commitment to Army Commander Bouterse's regime in Suriname. The Cuban Communist Party's official newspaper recently published a series of articles that glorified Bouterse's "revolution" and accused the US of trying to undermine it. Bouterse and Grenada's Prime Minister Bishop accompanied President Castro on an Aeroflot flight to the Nonaligned Summit in New Delhi, and they made a brief stopover in Tashkent, USSR, while en route.

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Comment: These developments suggest Havana has decided to try to mold Bouterse into an ideologically acceptable ally. Castro is likely to have advised him on ways to consolidate his control. Bouterse's international exposure is extremely limited, and he probably was flattered by the attention shown him by Castro and the Soviets.

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**WEST GERMANY: Election in Schleswig-Holstein**

Voters in Schleswig-Holstein will go to the polls tomorrow in the first state election since the national election on 6 March. Most observers expect a return of the current Christian Democratic Union government.

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Comment: Each of the two major parties has an attractive candidate, but both are unknown quantities to most voters. Christian Democratic Union leader Barschel has not been on the job long enough to build a record, and his Social Democratic challenger is an effective campaigner who has combined a moderate image with an appeal to the ecological vote. The local Free Democrats, in contrast to the national party, advocate a coalition with the Social Democrats, but they are not likely to win the 5 percent necessary for representation. The Greens are even more divided in this state than elsewhere and probably also will not pass the 5-percent level.

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AUSTRALIA: The New Cabinet

The Labor Party caucus has approved Prime Minister Hawke's cabinet choices and his request to divide the 27-seat cabinet into "inner" and "outer" cabinets. The inner cabinet, led by Hawke, is made up primarily of party conservatives. Hawke chose four members of the party's left wing for cabinet positions, the minimum number acceptable to the left, but they have been given minor portfolios.

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Comment: The inner cabinet's heavy representation of ministers with financial portfolios reflects Hawke's concern about the economy. In maneuvering the voting on the cabinet, Hawke seems to have firmly established his leadership and control of the party.

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Special Analysis

USSR-AFGHANISTAN: Looking for New Approaches

Since Yuriy Andropov became General Secretary, the USSR has undertaken initiatives that suggest it is seeking more effective ways to maintain a pro-Soviet regime in Kabul. Moscow's actions to date argue against a major troop increase, a precipitate withdrawal, or other drastic changes in policies. Instead, Andropov apparently hopes a combination of continued military pressure on the insurgents and negotiations both with them and with Pakistan will enable the USSR to accomplish its objectives at a lower military and political cost.

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The Soviet leader, however, appears reluctant to pay the economic and military price or face the international condemnation involved in intensifying the war. The Indian Ambassador in Kabul has reported that the Soviets recently rejected Babrak's request for more troops.

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Prospects for Military Withdrawal

Recurrent rumors—many of them Soviet inspired—of Andropov's alleged opposition in 1981 to the invasion and of Soviet hints at a willingness to live with a "bourgeois government" in Kabul have led to speculation that Andropov is prepared to use the UN as an intermediary to negotiate a quick Soviet withdrawal. Moscow would realize substantial international benefits from this kind of settlement.

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Andropov, however, would be unlikely to take such a daring step, in part because he may not have yet consolidated his leadership position. Military leaders and other elements in the bureaucracy probably would oppose the blow to the USSR's prestige that a withdrawal would entail. [REDACTED]

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The public statements Andropov has authorized on the "irreversibility of the Afghan revolution" and the USSR's determination to do its "internationalist duty in Afghanistan to the end" also argue against a decision to cut and run. In fact, when speculation about Babrak's expendability reached Kabul in December and prompted another round of factional political infighting in the regime, Andropov personally reiterated his support for Babrak. [REDACTED]

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What Andropov Wants

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Andropov may be hoping that talks with some insurgent groups will relieve pressure on Soviet forces and enable them to concentrate on those insurgent groups that are unwilling to negotiate. At the same time, he may be aiming to divide the insurgents and encourage them to seek accommodation with Kabul. Negotiations also may create doubts in Pakistan about the efficacy of continuing to support the insurgency and refusing to talk directly to the Afghan regime. [REDACTED]

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In addition, Soviet pressure on the Afghans to participate seriously in the UN talks helps mute international criticism. It also gives the USSR maneuvering room to test whether Pakistan would accept a settlement that would protect Soviet interests and permit some reduction in Soviet troop levels. Islamabad's willingness to continue the UN talks may have heightened Moscow's expectations that it could obtain international agreement on a pro-Soviet regime whose Marxist nature would be only slightly diluted. [REDACTED]

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If this is Andropov's objective, he probably would keep his hand hidden from both domestic and foreign antagonists. One sign that he is moving in this direction would be more convincing evidence that the USSR is flexible concerning who should rule in Kabul. [REDACTED]

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Outlook

As things now stand, the majority of insurgents are prepared to continue fighting, and Pakistan apparently remains determined to support them. Nevertheless, Andropov's new approach could eventually pay dividends. A Soviet "fight-talk" strategy in Afghanistan might persuade some war-weary guerrillas to lay down their arms in return for only nominal Afghan Government control of their areas. 

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If a dramatic reduction of insurgent activity in Afghanistan occurred that enabled Afghan refugees to leave Pakistan, Islamabad might be persuaded to reach a deal with Moscow. The Soviets might replace Babrak in order to promote such a settlement. 

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In any event, Andropov probably will continue to maintain military pressure on the insurgents, while maintaining dialogues to test for weaknesses in his opponents' positions and to discover how much room he has to maneuver. His next steps are likely to be determined by the results of these efforts. 

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Special Analysis

MEXICO: The First 100 Days and Beyond

President de la Madrid has made some adroit moves during his first 100 days in office, but the economic crisis is testing the durability of the political system. Austerity is hitting consumers hard, and the government may soon face unprecedented pressure. Traditional means of controlling dissidents by co-opting them may not be enough, and the government could be forced to resort to repression. The military should be able to control localized violence over the short term, although it would find it difficult to handle widespread, persistent unrest.

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The new President has eased tensions and bought Mexico time to deal with the financial crisis. Compromises with leaders of organized labor have been worked out, and union officials and most businessmen are holding to the concept of austerity. The rural sector is quiet, and opposition parties remain reluctant to make direct attacks on government policies.

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The economy is still deteriorating, however, and consumption will fall and unemployment increase for much of this year. Policy inequities or a loss of confidence in the government could cause serious internal security problems.

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Organized labor's loyalty is the key to continued political stability. Although labor leaders are not yet prepared to abandon the President's program, they are concerned about high inflation and growing food shortages and foresee increasing demands for redress that they can ill afford to ignore. Urgent calls for emergency wage increases could lead to a showdown if de la Madrid is unable to work out a compromise.

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Clashes between landless peasants and property owners may increase, but widespread rural violence is unlikely. Nevertheless, workers on commercial farms that produce for export will be hard hit by inflation and moves to economize. Land invasions similar to those in the past are possible.

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Growing dissatisfaction with austerity is providing opposition parties with an unprecedented opportunity for expansion. Strong performances by opposition candidates, coupled with low voter turnouts in state elections this year, would embarrass the ruling party

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and add weight to demands for electoral reforms. The center-right National Action Party, the largest opposition group, probably would be the chief beneficiary. [REDACTED]

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Contingency Planning

The military is focusing on maintaining internal security. So far, military leaders are backing the administration and are preparing to put down the violence the government probably expects by midyear.

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Any disturbances are likely to begin in the capital area, where roughly one-third of the region's troops have been designated emergency personnel. [REDACTED]

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As in the past, the military probably also is determining the civilian skills of personnel in order to assign them to operate key industries shut down by strikes. [REDACTED]

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[REDACTED] The US defense attache reports that security forces throughout the country receive riot-control training, although quality probably varies. [REDACTED]

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Military Capabilities

The military's limited modernization program under the last two Presidents has not significantly improved internal security capabilities. Purchases of jets, reconnaissance vehicles, and other major items resulted in neglecting basic equipment such as riot-protection gear and trucks to carry troops to staging areas. [REDACTED]

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Mexico's 125,000-man military is small in relation to the civilian population by Latin American standards. Nevertheless, the military is likely to be able to suppress disorders, provided they remain scattered. Its reputation for strong action and its ability to distribute limited resources to trouble spots will serve to retain control. [REDACTED]

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One-fifth of Mexico's troops, including the best trained and best equipped units, are stationed near the capital. At least two of the five brigade-level units in Mexico City can send reinforcements to outlying areas within 12 hours. [REDACTED]

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The soldiers have handled civil disturbances in the past and have benefited from improved basic training and annual field-training exercises in recent years. Domestic industries now produce adequate supplies of small arms and ammunition. []

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Zone commanders are regularly reassigned to prevent the establishment of individual power bases, and the chain of command remains highly centralized with strong direction by the Secretary of Defense down to the operational level. These factors are likely to continue to ensure that the armed forces will support presidential decisions. []

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The Longer Term

If early efforts to crush opposition were to fail and disorders spread, the armed forces would encounter serious problems in maintaining control. Manpower shortages, planning deficiencies, and logistic constraints would leave the armed forces unprepared for simultaneous threats throughout the country. []

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There is little indication, however, that the Mexicans are preparing to abandon the system. The country's institutions are solid, its leaders are competent and flexible, and there is still no strong alternative leader or program. National pride in stability, the efficacy of the government, and the prospect of eventual economic recovery will further strengthen the country's ability to withstand shocks. []

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